

Q1 2006

Quarterly

ECONOMIC REPORT

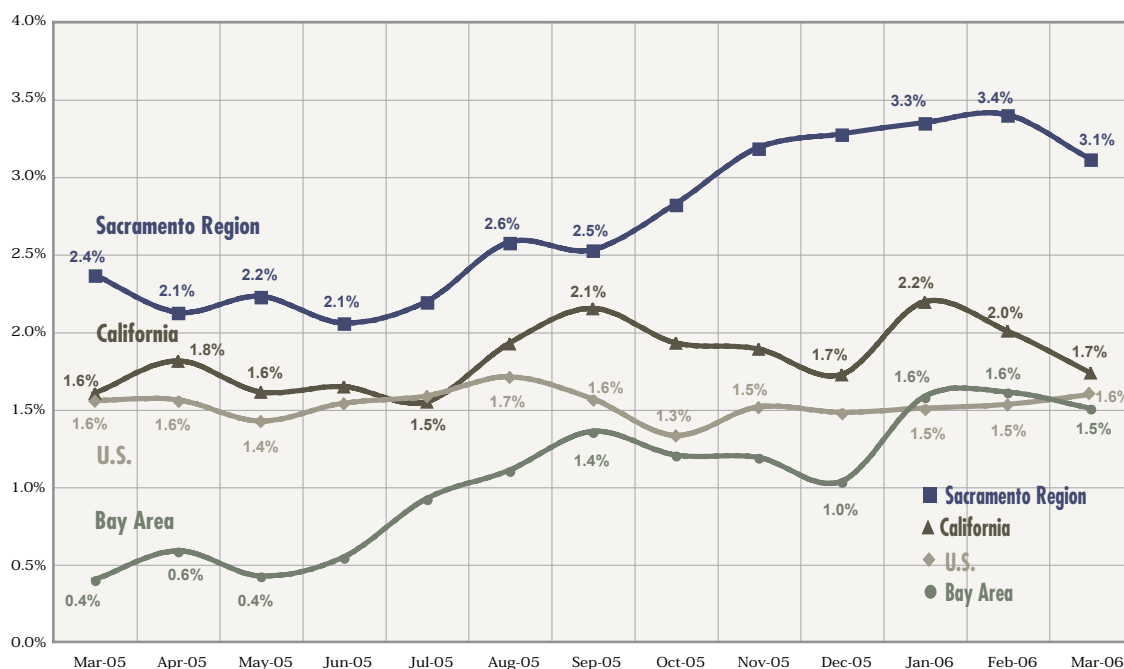
With Continued Strong Job Growth in March 2006, the Sacramento Region Places at the Top of the List of Major and Neighboring Regions in the State

Since November 2005, the Sacramento Region has posted year-over-year employment growth rates above 3 percent, surpassing the statewide and national average by a significant margin. This level of growth is the highest the Region has seen in a number of years. Between March 2005 and 2006, the Region experienced 3.1 percent growth with a gain of 28,300 jobs. The recent pattern of continuously increasing job growth that started in October 2005 ended in March 2006 when year-over-year employment growth rates fell slightly below the February 2006 level.

The state has seen job growth above the national average since August 2005 despite two recent patterns of decreasing year-over-year employment growth rates between October and December 2005 and an ongoing decline since February 2006. In March 2006, the state posted 1.7 percent job growth, reflecting a gain of more than 254,000 jobs.

The nation's flat year-over-year employment growth rate trend continued into March 2006. Over the past 12 months, the nation added over 2.1 million jobs, posting 1.6 percent job growth.

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Job Growth

Sacramento Region, Bay Area, California and United States

Sacramento Regional Research Institute, April 2006. Data Sources: California Employment Development Department and US Bureau of Labor Statistics. Note: Job growth reflects year-over-year employment growth rates.

An economic report on the six-county Sacramento Region provided by the Sacramento Regional Research Institute (SRRRI), a joint venture of SACTO and California State University, Sacramento

Job Growth *cont.*

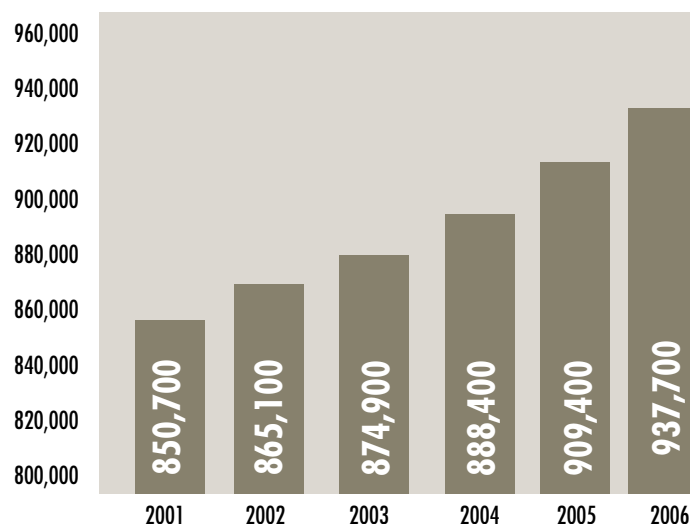
This is slightly above the modest 1.5 percent average job growth for the past year.

The Bay Area reached 1.6 percent year-over-year employment growth at the beginning of 2006, exceeding the national average and presenting some of the highest growth it has seen since beginning its recovery. Job growth in March 2006 dropped below the level seen at the beginning of the year and back below the national average. With 1.5 percent growth between March 2005 and 2006, the Bay Area gained 42,500 jobs.

The Sacramento Region saw the highest job growth compared to neighboring areas and the state's largest regions in March 2006. No other selected region experienced job growth above 3 percent and only four other regions posted year-over-year employment growth rates above 2 percent—Solano, Fresno, the Inland Empire, and Stockton. These regions have provided a tremendous contribution to California's economy considering that two of the state's largest regions saw job growth below the national average. It is important to note, however, that every selected region experienced positive job growth, including the Bay Area, which is in the midst of an economic recovery.

Sacramento Region Employment

March 2001–2006

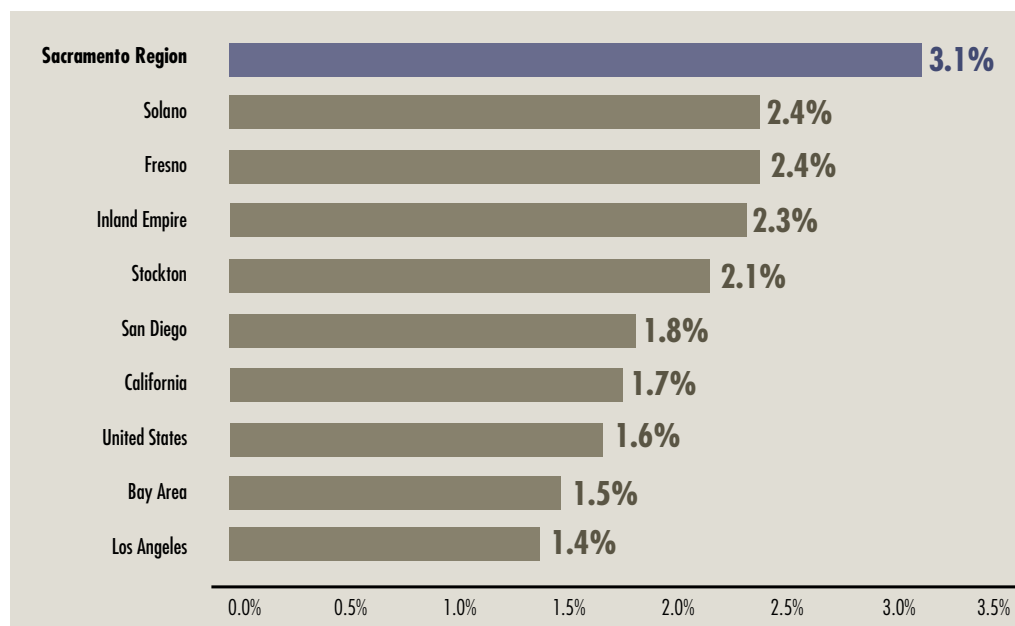


Sacramento Regional Research Institute, April 2006
Data Source: California Employment Development Department

Employment Growth Rates

Selected Regions,
March 2005–2006

Sacramento Regional
Research Institute, April 2006
Data Source: California Employment
Development Department and
US Bureau of Labor Statistics



The Region's Professional & Business Services; Leisure & Hospitality; and Government Sectors Added the Most Jobs Over the Past Year

The Sacramento Region's Professional & Business Services; Leisure & Hospitality; and Government sectors added the most jobs among the major sectors between March 2005 and 2006. With a total gain of 16,700 jobs, these three sectors contributed about 59 percent of the Region's net job gains over the past 12 months. The contributions of Construction and Trade, Transportation, & Utilities, two previously leading sectors, have fallen, demonstrating a change in the focus of growth in the Region. Despite declines at the statewide level and in most major economic regions throughout the state, the Manufacturing sector saw an increase of 2,000 jobs in the Sacramento Region over the past 12 months, indicating the unique strength of this sector in the Region. Only the Region's Other Services and Information sectors posted job losses over the past year.

Major Sector Employment Gains and Losses

Sacramento Region, Bay Area and California

Sector	March 2005-2006		
	Sacramento Region	California	Bay Area
Total Nonfarm	28,300	254,200	42,500
Private Sector	23,300	228,800	39,400
Public Sector	5,000	25,400	3,100
Prof. & Business Svcs.	6,100	58,500	6,200
Leisure & Hospitality	5,600	47,700	7,900
Government	5,000	25,400	3,100
Trade, Trans., & Util.	4,800	36,900	4,700
Construction	2,100	41,300	11,500
Manufacturing	2,000	-11,800	-300
Financial Activities	1,900	23,200	4,900
Edu. & Health Svcs.	1,700	28,500	4,900
Nat. Res. & Mining	0	900	100
Other Services	-300	10,900	600
Information	-600	-7,300	-1,100

Sacramento Regional Research Institute, April 2006

Data Source: California Employment Development Department

Professional & Business Services and Leisure & Hospitality were also major contributors to job growth in the state, but the Construction sector continued to place near the top of the job gains lists at the statewide level. Combined, these three sectors accounted for close to 58 percent of the state's net job gains with a total gain of 147,500 jobs. Information and Manufacturing were the only two sectors to experience job losses statewide.

The Bay Area saw job growth in similar sectors as the state overall. Construction; Professional & Business Services; and Leisure & Hospitality added a total of 25,600 jobs between March 2005 and 2006, accounting for over 60 percent of the Bay Area's net job gains. Also like the statewide trends, the Bay Area only experienced job declines in Manufacturing and Information.

Employment Gains and Losses

Components of Sacramento Region and Bay Area

Area	March 2005-2006	
	Absolute	Rate
Sacramento Region	28,300	3.1%
Sacramento-Arden Arcade-Roseville MSA	25,700	3.0%
Yuba City MSA	2,600	6.7%
Bay Area	42,500	1.5%
Oakland-Fremont-Hayward Div.	22,900	2.2%
San Francisco-San Mateo-Redwood City Div.	12,300	1.3%
San Jose-Sunnyvale-Santa Clara MSA	7,300	0.8%

Sacramento Regional Research Institute, April 2006

Data Sources: California Employment Development Department

Both of the Sacramento Region's Metropolitan Statistical Areas (MSAs), Sacramento-Arden Arcade-Roseville (El Dorado, Placer, Sacramento, and Yolo Counties) and Yuba City (Sutter and Yuba Counties), experienced job gains between March 2005 and 2006. The Yuba City MSA continued to see robust job growth in March 2006 with 6.7 percent growth, reflecting a gain of 2,600 jobs. Growth in the Yuba City MSA was driven by the Trade, Transportation, & Utilities and Government sectors. The Sacramento-Arden Arcade-Roseville MSA accounted for about 91 percent of the Sacramento Region's job gains,

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Sector Job Gains *cont.*

posting 3.0 percent job growth in March 2006. Much of the Sacramento-Arden Arcade-Roseville MSA's growth was contributed by the Professional & Business Services and Leisure & Hospitality sectors.

Like the Sacramento Region, all components of the Bay Area's economy posted job gains over the past 12 months. Accounting for over half of the Bay Area's net gains, the Oakland-Fremont-Hayward Metropolitan Division (Alameda and Contra Costa Counties) saw 2.2 percent job growth with an increase of 22,900 jobs. The Construction and Financial Activities sectors added the most jobs in the Oakland-Fremont-Hayward Metropolitan Division between March 2005 and 2006. The San Francisco-San Mateo-Redwood City

Metropolitan Division (Marin, San Francisco, and San Mateo Counties) also saw notable job gains, making up about one-third of the Bay Area's net employment increases with a 1.3 percent year-over-year employment growth rate and a gain of 12,300 jobs. Growth in this Metropolitan Division was driven by the Professional & Business Services and Leisure & Hospitality sectors. Accounting for the remainder of the Bay Area's job growth, the San Jose-Sunnyvale-Santa Clara MSA (San Benito and Santa Clara Counties) added 7,300 jobs. Its 0.8 percent job growth points to the ongoing economic recovery in the Silicon Valley. The Leisure & Hospitality and Construction sectors posted the greatest job gains in the San Jose-Sunnyvale-Santa Clara MSA over the past 12 months.

Employment Opportunities for Region's Residents Grew Faster than Number of Employable People in 2005

Economic theory suggests that as long as the year-over-year growth rate in the number of persons employed is larger than the growth rate in the civilian labor force, a region is in good economic health. The Sacramento Region has been in good economic health over the past year where employment opportunities available to its

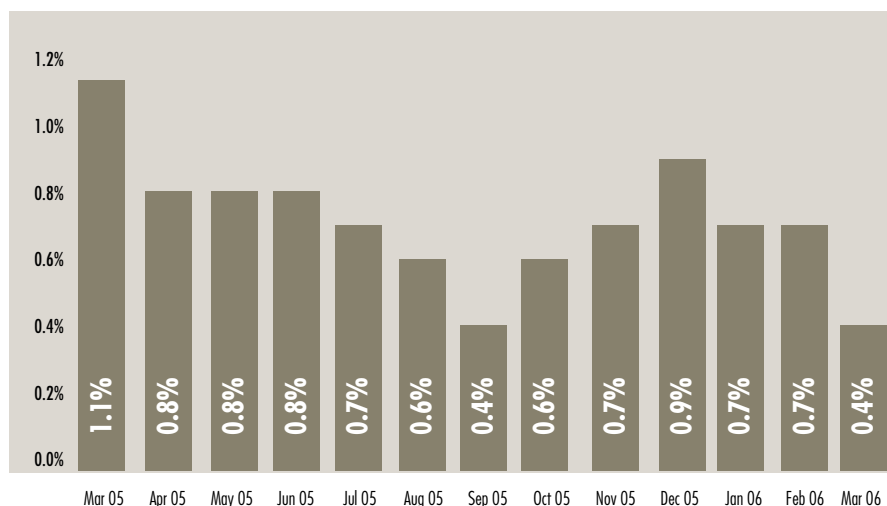
residents grew faster than the number of employable people. During this time, the healthiest conditions were posted in March and December 2005 with the divergence in year-over-year growth rates around 1 percentage point. Despite a slight decline over the past few months, the divergence still remains positive.

Sacramento Region Economic Health

Sacramento Regional Research Institute, April 2006

Data Source: California Employment Development Department

Note: Bars reflect the percentage point difference between the year-over-year growth rates in the employed portion of the labor force and the total labor force.



Only a Small Percentage of Homes Sold in the Sacramento Region During the Fourth Quarter of 2005 were Affordable to Families Earning a Median Income

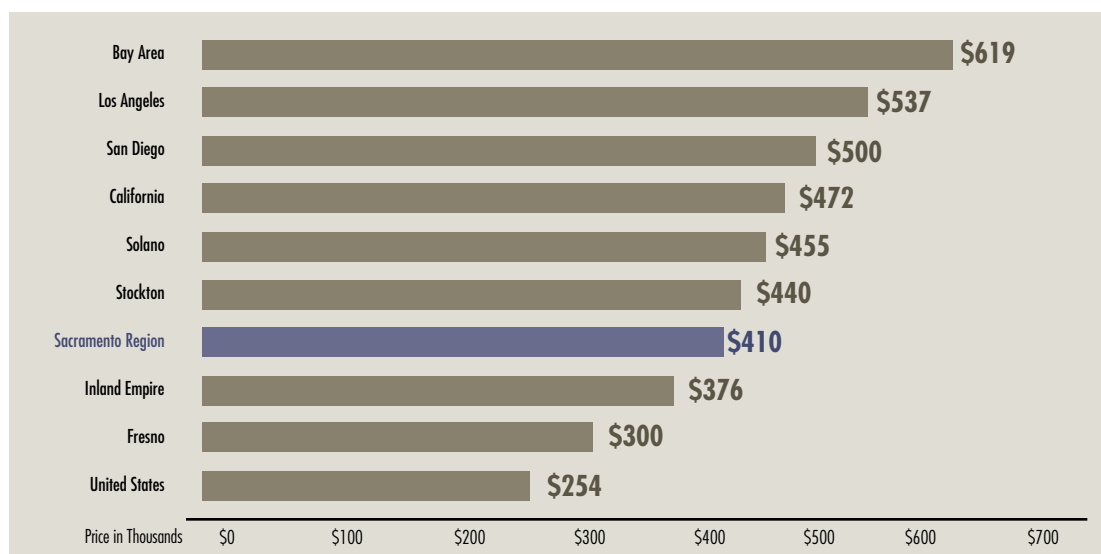
Although the Sacramento Region's median home sale price of \$410,000 for the fourth quarter of 2005 is considerably higher than the national average of \$254,000, it remains one of the lowest among neighboring and major regions in the state. Home sale prices in the state's inland regions, including Sacramento, remained below the statewide average while its coastal areas generally presented prices well above the California average. Over the past twelve months, the Sacramento Region's home sale price has increased by over 16 percent, around the same rate as the national average and below the statewide average. Compared to previous quarters, year-over-year price growth has slowed in the Region.

Of the homes sold in the Sacramento Region in the fourth quarter of 2005, just over 7 percent were affordable to

families earning a median income. Despite posting a median home sale price notably below the statewide average, the Region's Housing Opportunity Index score falls around the same level as California. All areas in the state are significantly less affordable than the nation overall where 41 percent of the homes sold are affordable to families earning a median income. The Bay Area presents a noteworthy condition—it is one of the most expensive regions in the state, but posts one of the highest Housing Opportunity Index scores primarily due to its income levels. Over the past year, the Region experienced a drop in affordability of about 7 percentage points, similar to the statewide average. Year-over-year affordability declines in the Sacramento Region have slowed compared to previous quarters.

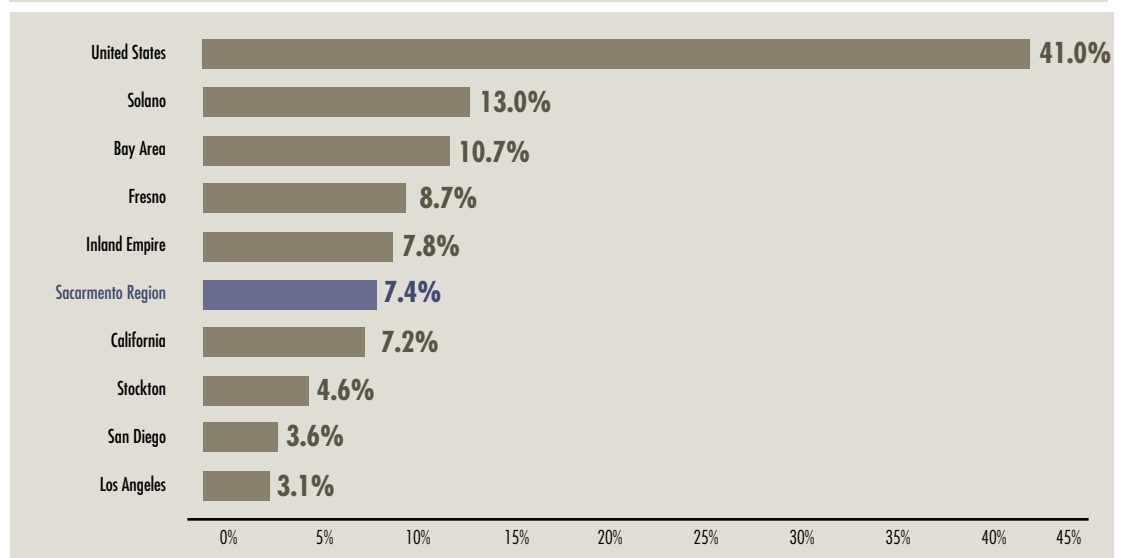
Home Sale Price

Selected Regions,
Fourth Quarter 2005
Sacramento Regional Research
Institute, April 2006
Data Source: National
Association of Home Builders—
Wells Fargo Housing
Opportunity Index



Housing Opportunity Index

Selected Regions,
Fourth Quarter 2005
Sacramento Regional
Research Institute,
April 2006
Data Source: National
Association of Home
Builders—Wells Fargo
Housing Opportunity Index
Note: Housing Opportunity
Index reflects share of homes
sold that would have been
affordable to a family earning
the median income.



Prosperity Index: Measuring the Sacramento Region's Competitive Position

Business Component Update

The Sacramento Regional Research Institute (SRRI) developed the Prosperity Index to provide business and community leaders in the Sacramento Region a valuable tool to measure economic prosperity and track its performance against competitor regions in order to evaluate the competition, identify opportunities for improvement and ultimately impact change in the Region. Along with the national average, ten competitor regions were chosen as benchmarks for this analysis based on feedback from regional economic development organizations regarding metropolitan areas that often compete with the Region for business location and expansion projects. SRRI will update the overall Prosperity Index annually—which measures indicators in the three areas of **BUSINESS**, **PEOPLE** and **PLACE**. The **BUSINESS** component will be updated quarterly in order to allow for more frequent evaluations of the local business climate. For more information and to view the 2005 report, please visit www.srri.net.

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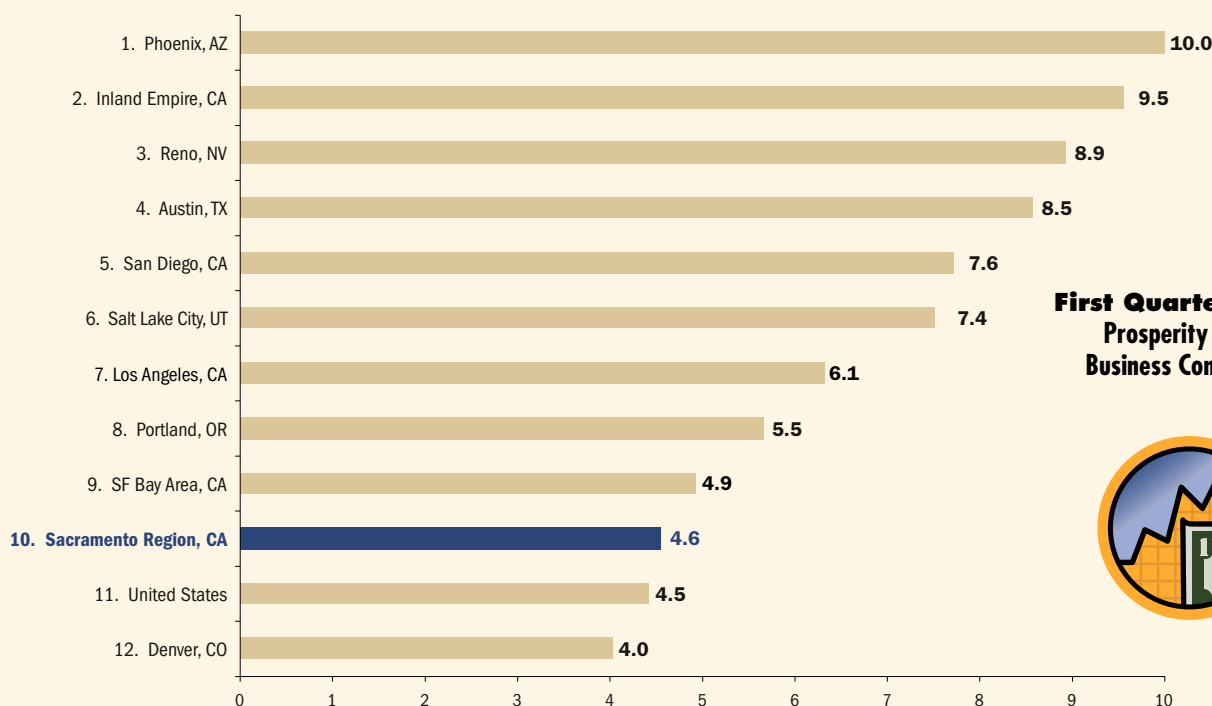


GENCORP

The First Quarter 2006 Prosperity Index Business Component Shows that the Sacramento Region has Fallen to a Fairly Low Competitive Position

The Sacramento Region placed tenth among its main competitors on the **BUSINESS** component of the **PROSPERITY INDEX** for the first quarter of 2006. The Region received a score of 4.6 out of a possible 10 points, reflecting a decline from the fourth quarter of 2005 when the Region posted a score of 6.2 and ranked seventh. This relative regression left the Sacramento Region close to the national average, near the bottom of the list of benchmark regions, and behind all other measured California economies. The Region received middle-of-the-road scores in Establishment Growth, Job Growth, Office Vacancy Rate, and Unemployment Rate along with low scores

in Payroll Growth and Venture Capital Investment. Only Job Growth and Venture Capital Investment showed improvement from the fourth quarter of 2005 in the Sacramento Region. Phoenix displaced the Inland Empire (Riverside/San Bernardino) at the top of the list as a result of its high scores in half of the indicators while Denver and the United States remained at the bottom of the list due to comparatively low performance across the board. As a result of its relative declines in business climate indicators, overall, the Sacramento Region presents a somewhat low competitive position.



**First Quarter 2006
Prosperity Index
Business Component**



Prosperity Index: Measuring the Sacramento Region's Competitive Position

First Quarter 2006 Prosperity Index: Business Component Indicator Scores

Region	Establishment Growth	Job Growth	Office Vacancy Rate	Payroll Growth	Unemployment Rate	Venture Capital Investment
Austin, TX	4.7	8.6	0.0	9.8	7.5	1.6
SF Bay Area, CA	0.0	0.0	3.6	0.3	4.7	10.0
Denver, CO	5.9	2.2	1.0	0.8	4.2	1.2
Inland Empire, CA	6.1	9.8	9.4	6.5	4.1	0.0
Los Angeles, CA	4.2	1.7	9.7	1.7	5.0	0.8
Phoenix, AZ	4.9	10.0	4.0	10.0	8.9	0.1
Portland, OR-WA	8.1	4.6	5.8	1.7	0.0	0.5
Reno, NV	7.4	5.8	3.2	6.9	10.0	0.5
Sacramento Region, CA	3.8 (-)	3.8(+)	4.9(-)	0.0(-)	4.7(-)	0.2(+)
Salt Lake City, UT	10.0	5.2	4.0	2.4	6.3	0.2
San Diego, CA	3.3	2.7	10.0	1.2	8.2	3.3
United States	4.5	2.4	3.5	1.8	4.2	0.6

Sacramento Regional Research Institute, April 2006

Note: + refers to improvement in score over Q4 2005 and - represents decrease in score from Q4 2005.

Benchmark Regions

Sacramento Region, CA—El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba Counties

Austin, TX—Bastrop, Caldwell, Hays, Travis, and Williamson Counties

SF Bay Area, CA—Alameda, Contra Costa, Marin, San Benito, San Francisco, San Mateo, and Santa Clara Counties

Denver, CO—Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, Park, and Boulder Counties

Inland Empire, CA—Riverside and San Bernardino Counties

Los Angeles, CA—Orange, Los Angeles, and Ventura Counties

Phoenix, AZ—Maricopa and Pinal Counties

Portland, OR-WA—Clackamas, Columbia, Multnomah, Washington, Yamhill Counties in Oregon and Clark and Skamania Counties in Washington

Reno, NV—Storey and Washoe Counties

Salt Lake City, UT—Salt Lake, Summit, Tooele, Davis, Morgan, and Weber Counties

San Diego, CA—San Diego County

United States—national average

Prosperity Index Business Component Indicators

Job Growth accounts for the year-over-year percentage increase in average second quarter employment from 2004 to 2005. This measure is often viewed as an indicator of overall economic performance since employment is the primary source of income for residents and changes in the level of jobs reflect local business patterns. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

Establishment Growth measures the percentage increase in firms from the second quarter of 2004 to the same quarter of 2005. As an indicator of the overall business climate, this measure shows net changes in the number of businesses and captures firm births and deaths. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

Office Vacancy Rate calculates the percentage of the total net rentable area of office property that was unoccupied in the fourth quarter of 2005. High vacancies indicate a lack of demand and/or overdevelopment and can also be interpreted as signs of economic slowdown. Regions with high vacancy rates receive low scores on this indicator. The sources for this data are the CB Richard Ellis Office Vacancy Index and Market View reports and Colliers International Market Reports.

Payroll Growth measures the percentage increase in aggregate compensation over a one-year period (in this case, from the second quarter of 2004 to the second quarter of 2005). This data provides insight into changes in total industry payrolls, pointing to general business performance and the level of available consumption and savings activity. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

Unemployment Rate calculates a 12-month moving average (ending in December 2005) percentage of the labor force that was unemployed. Higher unemployment rates indicate signs of economic slowdowns, increased competition for jobs, and decreased ability to generate income while lower rates tend to signify growth and expansion. Regions with low unemployment rates receive higher scores on this indicator. The source for this data is the Bureau of Labor Statistics' Local Area Unemployment Statistics.

Venture Capital Investment accounts for total venture capital funds invested in local companies per employee in the fourth quarter of 2005. This indicator not only points to perceptions in the investment community about a region's innovation capacity and investment risk, but also has future implications since firms receiving venture capital use the funds in an attempt to innovate, develop products and services, and become more productive in the future. The sources for this data are Venture Economics' Quarterly Statistics and the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

SACTO Prospect Activity Update

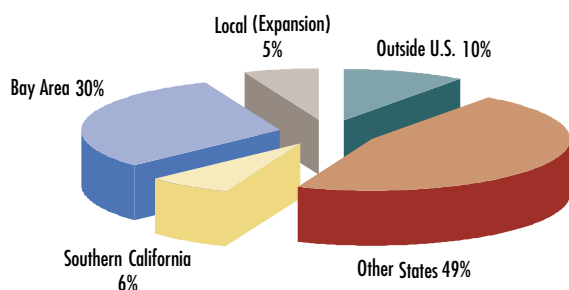
SACTO is currently seeing a renewed interest in the Sacramento Region from outside of California. Nearly half of all firms that SACTO is assisting for possible relocation or expansion into the region would be making the decision from outside of California. Over the last twelve months, this number has grown by ten percent. The second largest block of prospects is from the San Francisco Bay Area, representing nearly one third of all prospects. While the number of Bay Area companies SACTO has been working with has been relatively stable, SACTO is seeing many more companies looking to the Sacramento Region as a “quality of business” move, rather than just escaping higher costs.

The largest grouping of firms SACTO is currently assisting remains in the category of “industrial user”. Comprised of manufacturing and distribution users, this group represents

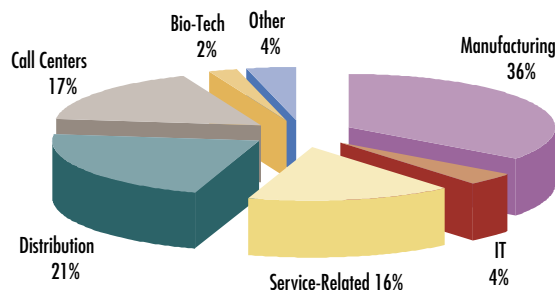
57 percent of firms. The category showing the most long-term growth is “Service-Related”, which is also one of the strongest employment sectors in the regional economy. Over the last twelve months, this sector has shown an increase in share of four percent.

In total, over 21 million square feet of space is being pursued by those companies interested in placing facilities in the Sacramento Region. Those facilities would hire roughly 19,000 new employees. Since January, this total real estate requirement has increased by over two million square feet, and the number of employees by over 1,000. While the reality is that only a portion of these companies will make the decision to invest in the Sacramento Region, viewing these totals allows us to track the growth of demand for new facilities.

Prospect Origin Breakdown



Facility Type Breakdown



Quarterly ECONOMIC REPORT

A P U B L I C A T I O N B R O U G H T T O Y O U B Y S A C T O A N D
T H E S A C R A M E N T O R E G I O N A L R E S E A R C H I N S T I T U T E

SACTO  The Inside Track

ABOUT SACTO

SACTO is the region's leading facilitator of economic development bringing together the organizations, information and resources in the pursuit of jobs, talent and investment needed to ensure regional prosperity and global competitiveness.

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